

# GENERAL AGREEMENT ON

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## TARIFFS AND TRADE

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International Dairy Arrangement

### INTERNATIONAL DAIRY PRODUCTS COUNCIL

#### TWENTY-FOURTH SESSION

##### Draft Report

Chairman: Mr. K. Luotonen

1. The International Dairy Products Council held its twenty-fourth session on 20 March 1991.
2. The Council adopted the following agenda:
  - A. Election of Chairman and Vice-Chairman
  - B. Admission of observers under Rules 11 and 14 of the Rules of Procedure
  - C. Review of the functioning of the Arrangement
  - D. Evaluation of the situation in, and outlook for, the world market for dairy products
  - E. Note by the Chairman on the present meeting
- A. Election of Chairman and Vice-Chairman
3. In accordance with Rule 2 of the Rules of Procedure, the Council elected Mr. K. Luotonen (Finland) as Chairman for 1991/92 and Mr. M. Jordana (Australia) as Vice-Chairman.

4. In connection with the elections of Chairman and Vice-Chairman, words of thanks and appreciation were expressed. The outgoing Chairman, Mr. J.P. Buda and Vice-Chairman Mr. K. Lillerud, were thanked for their wholehearted efforts over another successful year in the history of the Arrangement. The elected officers thanked the Council for the confidence they had been shown. Delegations were thanked for the efforts made to restore the credibility and effectiveness of the Arrangement, and the secretariat was thanked for services rendered.

5. The Council noted with satisfaction that Mr. Buda was recovering from his illness and hoped that he would again soon be participating in its work. Particular words of thanks were presented to Mr. Tim Groser (New Zealand), who had been Chairman of the Council in 1987 and 1988 and also very active in the work of the bodies established under the Arrangement. It was noted that he would soon leave Geneva.

B. Admission of observers under Rules 11 and 14 of the Rules of Procedure

6. The Council invited the representative of Panama in the capacity of observer, to follow the proceedings of the session, in conformity with Rule 11 of the Rules of Procedure.

7. The Chairman recalled that at its eleventh session held in September 1984, the Council had agreed to extend an invitation of a permanent character to the Economic Commission for Europe, FAO, OECD and UNCTAD. Accordingly he invited these organizations to participate in the present session as observers. Furthermore, an observer for the IMF was invited to attend the session, in conformity with Rule 14 of the Rules of Procedure.

C. Review of the functioning of the Arrangement

Reports of the forty-fourth and the forty-fifth sessions of the Committees of the Protocols

8. The Council carried out a review of the functioning of the Arrangement as required by its Article IV:1(b). For this review the Council had before it the report of the forty-fourth sessions of the Committee of the Protocol

Regarding Certain Cheeses, the Committee of the Protocol Regarding Certain Milk Powders and the Committee of the Protocol Regarding Milk Fat (DPC/PTL/15). A full report of these meetings had been approved recently and circulated as document DPC/PTL/17. Concerning the forty-fifth sessions of the Protocol Committees, the Chairman of the Committees presented an oral report to the Council.

9. The Committee of the Protocol Regarding Milk Fat, the Committee of the Protocol Regarding Certain Cheeses and the Committee of the Protocol Regarding Certain Milk Powders held their forty-fifth sessions on 18 and 19 March 1991.

10. In conformity with the Rules of Procedure, Mr. M. Jordana (Australia) was elected Chairman for 1991/92.

11. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by the Protocols. Information and comments regarding milk production and dairy policies were given in the Committees and will be recorded in the full report of the meetings.

12. The Committees noted that world butter and butter oil production had grown in 1990 at a rate of 1.4 per cent amounting to 7.70 million tons and had been projected to remain at that level in 1991. World cheese production grew by another 2 per cent in 1990 to 14.72 million tons and the trend was likely to continue in 1991. After having declined for three consecutive years, world skimmed milk powder production increased in 1990 by 5 per cent to 4 million tons. However, world production in 1991 was forecast to show little change from the 1990 levels. World production of whole milk powder might have continued to decrease in 1990 at about the same rate as in the previous year, i.e. by 1.5 per cent.

13. World consumption of butter declined by 2 per cent in 1990, with sharper decreases registered in particular regions. In 1990, increased retail prices in Central and Eastern European countries affected adversely

the consumption of butter. In the medium term, world butter consumption might decrease further as the trend towards a diet with less fat will persist and remain irreversible. The upward trend in cheese consumption continued in 1990 and would be maintained in 1991, although the growth rate might fall slightly. World consumption of skimmed milk powder remained stable in 1990 and this stability was likely to be maintained in 1991. Consumption of whole milk powder continued to decrease in 1991.

14. As a result of a further deterioration of the market for butter, world exports in 1990 decreased by 12 per cent to some 700 thousand tons. A vigorous demand for light products in many countries entailed a substantial surplus of milk fat which together with a continued low butter consumption in many countries resulted in increased exportable availabilities. Additional quantities of butter were offered on international markets in 1990/91, resulting in pressure on market prices and in increased need for intervention purchases. Cheese trade expanded further in 1990, world exports reaching 887 thousand tons. The general expansionary tendencies continued in 1991. There was a further decline of 5 per cent in world exports of skimmed milk powder in 1990, when they amounted to 900 thousand tons. World exports of whole milk powder declined by 9 per cent in 1990 to some 800 thousand tons.

15. Aggregate butter stocks in the European Communities, North America and Oceania on 1 January 1991, estimated at 643 thousand tons, were 68 per cent higher than a year earlier. On the same date, skimmed milk powder stocks at 560 thousand tons, had trebled in relation to their level on 1 January 1990, mainly due to the increase in Community and United States stocks. Concerns had been expressed that stocks of both products would be increasing as a result of the fall in demand.

16. In 1990, the balanced market situation for dairy products came to an end with a rebuilding of stocks and strong downward pressures on prices notably for butter. Early in 1991, the market situation for milk powders and cheese was reasonably good. However, the market for butter and anhydrous milk fat continued to be fragile and totally dependent on

developments in the USSR market. Concerns were also expressed as to some uncertainties regarding the stability of the world market for dairy products caused by current tendencies in developments of exchange rates and notably the appreciation of the United States dollar.

17. For the first quarter of 1991, the following ranges of prices were reported (per ton f.o.b.):

- around US\$1,350 for butter, i.e. the minimum export price;
- between US\$1,625 and US\$1,800 for anhydrous milk fat;
- between US\$1,600 and US\$1,980 for Cheddar cheese;
- between US\$1,400 and US\$1,500 for skimmed milk powder for human consumption;
- between US\$1,400 and US\$1,550 for whole milk powder.

18. The Committee of the Protocol Regarding Milk Fat took note of the notifications communicated by New Zealand, the European Communities, Australia and Finland in relation to the Decision of 12 December 1990 (DPC/PTL/16), distributed as documents DPC/PTL/W/30, 31, 34 and 35. It noted that certain internal problems in the USSR had resulted in payment difficulties which might cause delays in shipments. Additional information would be furnished by participants at the next regular session.

19. The Committee of the Protocol Regarding Certain Milk Powders took note of the communications notified by Poland regarding sales totalling 2,842 tons of skimmed milk powder for purposes of animal feed at below the minimum export price under Article 3:5 of the Protocol (DPC/PTL/W/32, 33, 36, 41 and 42). It also took note of the Register of Sales made in accordance with that provision (DPC/PTL/W/40).

20. It was observed that a note included in an earlier notification (DPC/PTL/W/29) was not correct with respect to exports to certain destinations. The Committee noted that exports of skimmed milk powder and buttermilk powder for animal feed purposes at prices below the agreed minimum export prices could only take place where processes and control

measures were applied in the country of export or destination so as to ensure that the powder was exclusively used for feed. The relevant processes and control measures shall be approved by the Committee and recorded in the Register annexed to the Protocol. At present only one participant has registered such measures applying to imports. If participants were unable to observe the above obligations, surpluses should preferably be disposed of internally. An appeal was made to participants to observe closely their obligations with respect to exports of feed powder in the future. A request was made to Poland and other participants exporting feed powders to provide more details in their transactions and notably notify processes and control measures intended to be applied for approval and recording by the Committee. The Committee agreed to revert to the matter at its next regular meeting, and participants were invited to prepare themselves for further consideration of the problem.

21. The Committees had an exchange of views on divergencies and discrepancies in the statistical information provided with respect to trade and prices. Offers and suggestions for clarification and improvements were noted. It was agreed to revert to the matter at the next meeting and participants were invited to be prepared for further consideration and, if possible, to provide background material. Relationships between the minimum export prices fixed for pilot products in the Arrangement shall also be taken up for technical discussion.

22. The next sessions of the Committees will be held consecutively on 17-18 June 1991, subject to confirmation by the secretariat.

23. The Council took note of the report on the implementation of the Protocol Regarding Certain Cheeses, the Protocol Regarding Certain Milk Powders and the Protocol Regarding Milk Fat, expressing its sincere thanks to the outgoing Chairman and the newly elected Chairman of the Committees for their excellent work and for the reports.

24. The Council concluded that the International Dairy Arrangement was functioning to the satisfaction of its participants and had proven to be a valuable instrument for restoring and maintaining the order in

international dairy trade, notably through concerted disciplines relating to export price fixing and through actions taken to cope with problems occasionally occurring in particular markets.

Replies to Questionnaires 4 and 5

25. The Chairman recalled that according to Rule 23 of the Rules of Procedure, annual data concerning milk and dairy products other than those covered by the Protocols, should be furnished two and a half months at the latest after the end of the period concerned. The secretariat had circulated on 18 February 1991, an invitation to submit replies, inter alia, to Questionnaire 4. In 1991, replies had been received from the following participants: Argentina, Australia, Bulgaria, Finland, New Zealand, South Africa, Sweden and Canada, which had been or would shortly be circulated in the DPC/STAT/- series.

26. The Community representative apologized for not having submitted the relevant information as requested, but this would be submitted as soon as possible.

27. The Chairman also recalled that according to Article III of the Arrangement, and to Rules 23 and 29 of the Rules of Procedure, the full text of the inventory shall be distributed to participants at the beginning of each three-year period. The inventory is based on information submitted by delegations. Any changes in domestic policies and measures likely to affect dairy trade shall be communicated as soon as possible and in any case in July each year.

28. In 1991, relevant information in reply to Questionnaire 5 had been received from South Africa and Switzerland which would shortly be circulated in the DPC/INV/4/- series.

29. The Council took note of the information received and the Chairman urged participants who had not yet submitted their replies to

Questionnaires 4 and 5, to take the necessary steps to ensure that the relevant information would be submitted to the secretariat as soon as possible.

D. Evaluation of the situation in, and outlook for, the world market for dairy products

30. For its traditional evaluation of the situation in, and outlook for the world market for dairy products, the Council had before it various documentation prepared by the secretariat; namely a status report on the world market for dairy products (DPC/W/103), a note on food-aid operations relating to dairy products (DPC/W/105), and relevant statistical information (LPC/W/104, DPC/PTL/W/37, 38 and 39). The Chairman recalled that parts of the status report had been subject to consideration in the Committees of the Protocols, which had also reviewed relevant statistical information. Comments made in the Protocol Committees would be reflected in the report of the meetings, ultimately to be circulated in the DPC/PTL/- series, and would not necessarily have to be repeated in the Council. He invited delegates to make general comments on dairy policy matters and the market situation, but anyone should feel free to take up any specific points related to the market situation and the documentation, if this was desirable.

31. The representative of Japan recalled the strong upwards trend in cheese consumption in Japan and stressed that the major part of the demand was covered through imports, which in 1989 had accounted for more than 80 per cent of total cheese supplies. In 1990, there had been a reduction in imported volume of 5 per cent, but the value of imports had increased by 11 per cent. This might be seen in relation to a structural and qualitative change taking place. Natural cheese still accounted for the major part of consumption and imports, but melted or processed cheese was gaining importance although the quantity of such cheeses being imported and consumed was still modest. He would try to provide more detailed information at a later meeting.

32. The representative of the European Communities stressed that Community milk deliveries had again been reduced by 0.1 per cent in 1990, in spite of a 1 per cent increase in milk quotas and some reallocation of these. He found the secretariat documentation to be giving an excellent analysis of the situation and would limit his remarks to a few particular aspects. The disciplines shown by certain participants, amongst others the Community with respect to price policies, had brought results. As a result of the policies followed with respect to export price fixing, the Community exporters had been practically absent from the world market during large parts of 1990, a year which had been marked by a number of political events such as German unification, a difficult transition to market economies in Central and Eastern Europe, the economic difficulties in the USSR and the Gulf crisis, all and every one having repercussions on world trade in dairy products. The outlook for the immediate future was not too bright and he expressed concern as to the situation in the dairy market over the next year. In addition to a continued fall in butter consumption which might be accentuated, it might be feared that extended application of growth hormones such as bovine somatotropin could trigger drastic reactions from consumers. The efforts made by the Community to limit production and maintain a strict price discipline had adversely affected producers' revenues, which had fallen by 10 to 15 per cent in 1990. It was evident that the discipline exercised by Community producers and traders could only be maintained with co-operation of other participants and competitors. He expressed particular concern with recent developments in the United States where the adoption of a new Farm Bill and continued application of the Export Enhancement Program could result in increased milk production and larger quantities of powder and butter available for export. In view of this, he felt it should be appreciated that the Community was considering extremely cautious price proposals for 1991/92 and that intervention procedures had been tightened. A policy reform proposal which contained a proposal to reduce milk production further, was currently under consideration by the Community institutions. In his view, the Community was indeed on a good track and he sincerely hoped that other participants would follow the example thus contributing to restoring a not too promising situation.

33. The representative of Australia shared the concerns expressed regarding the short-term outlook for the dairy market. Some sectors might be worse hit than others, and notably the market outlook for milk fat was giving rise to concern. He agreed that in this situation some discipline was essential and stressed that in some countries, producers had a discipline imposed on them by the world market itself. In 1990, also Australian farmers had experienced severe cuts in their revenues, by 57 per cent in general and by 30 per cent for the dairy sector, according to preliminary data. Australia was therefore seriously concerned with future developments in the world market. He believed that the market or market forces could take care of the problems; however, market forces were not allowed to operate in many countries and Australia encouraged efforts made in other countries to revise policies so as to bring production under discipline. The further and sooner we could move towards more market discipline, the easier it would be to look at the future with some optimism.

34. The observer from the Economic Commission of Europe recalled that retail prices in the USSR would be trebled as from 2 April 1991. The butter price which had been at 3.38 roubles per kg. with 6.30 roubles covered over the State budget might rise to 10 roubles a kg. Although measures were envisaged to alleviate the hardship to consumers, he feared that the change would have serious impact on demand, as had indeed been the case in a similar situation in Poland in 1982. Delegates thanked the ECE observer for the information and expressed concern that in addition to the problems caused by the lack of foreign exchange available in the USSR to pay for imports there could be reason to fear that even if imported the butter might not be disposed of. In view of the importance of the USSR butter market, the situation could be an extremely dangerous one, and it was suggested to follow developments closely.

35. Several delegates expressed thanks and appreciation for the documentation prepared by the secretariat. Notably the status report was considered to be very useful and a particular valuable source of reference. A number of delegates provided, or would do so shortly, more recent data and information for updating the documentation.



36. The Council took note of the status report (DPC/W/103), the note on food-aid operations (DPC/W/105) and of relevant statistical information compiled by the secretariat. The Council also noted the comments made under this item and that delegations should inform the secretariat directly of any modifications to be made to the documentation. The Council noted in particular the concerns expressed as to the ability of the USSR to take delivery of and to pay for its imports and that recent increases in retail prices in the USSR might further aggravate the situation. The Committees of the Protocols will revert to the matter at their June 1991 sessions.

E. Note by the Chairman on the present meeting

37. The Chairman recalled that according to a decision of 28 November 1979 the CONTRACTING PARTIES should receive adequate information on developments relating to the operation of the Arrangement (BISD 26S/201). He accordingly suggested the submission of the following Note by the Chairman:

"1. The International Dairy Products Council held its twenty-fourth session on 20 March 1991.

2. Mr. K. Luotonen (Finland) was elected Chairman for 1991/92 and Mr. M. Jordana (Australia) was elected Vice-Chairman of the Council. Mr. Jordana was also elected Chairman of the Protocol Committees.

3. Under Rules 11 and 14 of the Rules of Procedure, the Council invited representatives of Panama and the Economic Commission for Europe, FAO, IMF, OECD and UNCTAD to attend the session as observers.

4. The Council reviewed the functioning of the Arrangement basing itself on reports regarding the implementation of the Protocol Regarding Certain Cheeses, the Protocol Regarding Certain Milk Powders and the Protocol Regarding Milk Fat, and on information submitted recently in reply to Questionnaires 4 and 5, concerning products not subject to the provisions of the Protocols and concerning domestic policies and trade measures and took note of comments made on this

documentation. The Council concluded that the International Dairy Arrangement was functioning to the satisfaction of its participants and had proven to be a valuable instrument for restoring and maintaining the order in international dairy trade, notably through concerted disciplines relating to export price fixing and through actions taken to cope with problems occasionally occurring in particular markets.

5. For its traditional evaluation of the situation in, and outlook for the world market for dairy products, the Council, in addition to the reports from the Committees of the Protocols, also had before it documents prepared by the secretariat, notably a status report on the world market for dairy products, a note on food-aid operations and relevant statistical information.

6. World milk production increased by 1 per cent from 1989 to 1990, as increases in the USSR, the United States and India were not entirely offset by a small decrease in the European Communities. World milk production was expected to continue to grow in 1991.

7. In 1990 the balanced market situation for dairy products came to an end, with a rebuilding of stocks and strong downward pressure on prices notably for butter and skimmed milk powder.

8. World butter production grew in 1990 at a rate of 1.4 per cent amounting to 7.70 million tons and was projected to remain at that level in 1991. A vigorous demand for light products in many countries entailed a substantial surplus of milk fat which together with a continued low butter consumption in many countries resulted in increased exportable availabilities.

9. Cheese production grew by another 2 per cent in 1990, and the trend was likely to continue in 1991. Increased growth in cheese consumption in 1990 led to a lively import demand and further expansion in cheese trade.

10. Throughout 1990, prices for dairy products remained under pressure in international markets and some offers and sales of butter and skimmed milk powder were reportedly made at prices below the agreed minimum export prices. However, towards the end of 1990 and early in 1991 the market situation for milk powders and cheese improved and prices firmed while the market for milk fats remained under pressure.

11. Concerns were expressed at the unsatisfactory situation dominated by a fragile butter market. Participants were urged to ensure full observance of the minimum export prices. An appeal was also made to non-participants not to offer or sell dairy products at prices below prevailing market prices and in any case not below the agreed minimum export prices. Minimum export prices established under the Arrangement have been maintained unchanged since September 1989.

12. In light of developments in the international butter market and in particular the situation with respect to imports into the USSR, the Committee of the Protocol Regarding Milk Fat decided in December 1990, that some provisions of the Arrangement should not apply to butter exports to the USSR, provided certain conditions were complied with. It was hoped that USSR imports would then reach their level of recent years, and that this would bring some relief to a depressed butter market. Concerns were, however, expressed as to the ability of the USSR to take delivery of and to pay for its imports and that recent increases in retail prices in the USSR might further aggravate the situation. The Committees of the Protocols will revert to the matter at their June 1991 sessions.

13. The Council took note of the documentation and other information available to it and also noted the comments made. Delegations shall inform the secretariat directly of any modifications to be made to the documentation.

14. The International Dairy Products Council intends to hold its next regular session on 18 September 1991."

38. The Council agreed to the suggestion by the Chairman and the note was circulated in document L/6833, dated 22 March 1991.

39. The twenty-fourth session of the International Dairy Products Council was then closed.